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SUBJECT: ON TAP: BELGIAN BEER BREWS BIG BUSINESS

¶1. (U) SUMMARY: Long before it was selected as the capital for the European Union in 1958, Belgium was a capital of beer. The rich variety of choices (115 breweries produce nearly 500 different beers) makes Belgium a prime destination for beer enthusiasts. The world's biggest brewer is Belgian, as are six of the world's seven beer-brewing Trappist monasteries. The industry generated nearly two billion euros of sales in 2005, and directly or indirectly employs 6,000 persons. Although the number of Belgian brewers has shrunk through a series of mergers, the industry has bucked the tide of corporate consolidation and product homogenization that has characterized the American beer industry. So far, Belgium has expanded its presence in the world beer market without sacrificing the heritage and traditions that characterize its humble beginnings. Belgium's beer sector has evolved into two very different parts: a few large scale breweries dominated by one global powerhouse, and a large number of popular small-scale brewers producing specialty products. Fortunately for the consumer, there is room for both in the demanding Belgian market. END SUMMARY

#### A SHORT HISTORY OF BEER IN BELGIUM

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¶2. (U) The history of beer in what is today Belgium dates from Roman times. While the Romans generally favored wine, appreciation for beer arose in the northern reaches of the empire where conditions were better for growing barley and hops (key ingredients used to make beer) than for grape cultivation. Evidence of brewing can be found in some Gallo-Roman villages dating from the third or fourth century BC. After the fall of the Roman Empire, the rise of Christendom saw the Church assume control of much of the land, its output, and products fermented from grain.

¶3. (U) In Belgium, many cloistered religious communities have a centuries-long brewing tradition. For early monks, beer supplemented a fairly plain diet and was the chief beverage aside from water and milk. A brewery was a common feature of nearly every abbey in the Low Countries during the Middle Ages. In Belgium's Meuse region, the Grand-Axe monastery is mentioned in documents as early as 805. Villers-la-Ville has had a community of monks brewing since 1146. In addition to abbeys, medieval Belgian brewing took place in inns, castles, and private homes.

¶4. (U) Breweries proliferated in response to growing demand during the 14th and 15th centuries. Not only had beer become a popular beverage, but it was commonly thought that beer was safer to drink than water. Belgian public health history supports this theory: epidemic diseases such as cholera and typhoid fever were spread through water, making beer a better choice for consumption. The guilds established during the Middle Ages also worked to maintain quality through strict

guidelines for brewing. In addition, guilds played an advocacy role for their industry, and fostered commerce and wealth -- which nobility could tax. By 1696 the Belgian brewers guild was wealthy enough to establish the "Maison des Brasseurs" (House of Brewers), in an elegant townhouse on the square of the Grand Place in Brussels. Today, the building still serves as the headquarters of the Confederation of Belgian Brewers.

¶15. (U) Through the 17th and 18th centuries, brewing spread across Belgium. Each Belgian village generally had its own brewery, and produced a beer with its own character deriving from local ingredients, water quality, and brewing techniques. An economic downturn and the mayhem of the Napoleonic Wars in the late 18th century slowed the brewing trade, but only temporarily. Napoleon's reforms of the church's role in society meant that by the early 19th century, the religious orders had been largely displaced by secular brewers as principal purveyors of beer.

¶16. (U) Innovations during the 19th century kept Belgium in the forefront of beer brewing. Pasteurization led to improved quality, and different types of yeast used in the brewing process yielded different flavors. Private innovation and investment led to a boom of breweries, and by 1900, there were 3,223 registered in Belgium.

¶17. (U) The onset of the First World War saw a massive reduction in the number of Belgian breweries, however, as raw materials and human capital were shifted into the war effort. By 1920, the number of breweries had fallen to 2,103 (for a country of 8 million). The economic depression of the 1930s followed by World War Two further diminished the number of operating brewers; by 1946, "only" 755 independent breweries remained in Belgium. Pressure for economies of scale and

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high investment costs forced a wave of mergers in the post-war decades. By 1983 just 134 separate breweries were registered in Belgium.

#### 500 BEERS TO CHOOSE FROM

¶18. (U) Today, small and medium-sized breweries are enjoying a somewhat of a renaissance. Consumers appear to value the specialized, even obscure, brews appearing. Some artisanal beers are brewed in such limited quantities that consumers wait for months to buy them. Much sought-after brews include the Saint Sixtus Westfleteren, judged best beer in the world in a recent international professional tasting. In 2007, there are approximately 115 independent breweries active in Belgium, which together produce nearly 500 different beers, some of them only for export.

¶19. (U) In Brussels, among the numerous cafes and museums dedicated to beer are the Delirium Cafe, with a pink elephant as its symbol, serving 2,004 varieties of beer including its own brew, and "Mort Subite" (Sudden Death), a popular cafe serving its own fruit-flavored brews. Beer features on both domestic and international tourism circuits.

¶110. (U) Immense variety and high quality distinguish Belgian beer, and some types are only brewed in this country. Lambic, Geuze, and Kriek are varieties of Belgian beer protected by a 1998 European Commission regulation ((EC) 954/98) regarding the "specific character" of the beer. This regulation counters imitation by protecting the name and prohibiting production of the beer outside of Belgium. Belgians thus defend the rules-of-origin of their beer, no less than the French do for their champagne. One American brewer, for example, was required to change the description on his label from "Belgian white beer" to "Belgian-style white beer".

¶111. (U) The most common types of beer brewed in Belgium include:

-- Brown beers: Maturing for several months, these beers are characterized by caramel-like malty sweetness and sourness. An example is Goudenband.

-- Golden or blonde beers: Akin to Pilsner lagers, very pale malts and hops are used with ale yeasts. Duvel is an example.

-- Lambic: This variety is one of the most well-known Belgian beers. It is a non-malted wheat beer that is naturally fermented by wild airborne yeasts. Its production is prohibited beyond a small area in and around Brussels. Faro is a sweetened, lighter variety of Lambic.

-- Geuze: Involving secondary fermentation, this is a blended sparkling beer, combining two or more Lambics.

-- Kriek: A Lambic beer, Kriek relies upon the additions of cherries or raspberries for more fermentation and a fruity taste.

-- Red beers: Red barley gives color and body to these beers, which are often aged in oak barrels. Rodenbach is an example.

-- White beers: The beers, sometimes called wheat beers, are light and cloudy, often served with a slice of lemon. Hoegaarden brews a classic example.

¶12. (U) Trappist beer is a special type of beer that is almost exclusively Belgian. Since Medieval times, Trappist beer has been brewed by or under the close control of Trappist monks. In 1997, Trappist abbeys formed the International Trappist Association (ITA) to protect the Trappist name from increasing abuse and imitation. All authentic Trappist beers carry a distinctive logo. The monastic community has a great deal of freedom in terms of what and how much to produce, but the economic purpose of the brewery is aimed toward charitable assistance rather than profit. In 2005 there were 171 Trappist monasteries throughout the world; just seven produce beer, six of them in Belgium.

#### BEER BY NUMBERS

¶13. (U) PRODUCTION, EXPORTS, AND IMPORTS: The 115 Belgian breweries produced 456,210,354 gallons of beer in 2005, a slight increase over production in 2004. About half of Belgium's production (232,787,009 gallons) was exported. The main destination countries for Belgian beer in 2005 were:

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France, the Netherlands, Germany, the United Kingdom, and the United States. The U.S. imported 3,739,203 gallons, equal to nearly 40 million 12 ounce bottles. Pils-style beer, e.g. Stella Artois, was by far the most popular. Belgium imports beer as well: in 2005 imports rose two percent over the previous year, with more than 26 million gallons imported, mainly from the Netherlands and Germany. Unlike some other European beer-producing countries, such as Germany, Belgium has no barriers limiting the import of foreign beer. Some Belgian brewers, however, complain about difficulty in gaining access to the U.S. market.

¶14. (U) CONSUMPTION: Among European countries, Belgium consistently ranks near the top in beer consumption. In 2005, annual consumption averaged about 24 gallons of beer per person, slightly more than the U.S. average of 22 gallons per person. Beer consumption in Belgium has fallen slightly during the past two decades, attributable in part to health concerns and to the increasing popularity of non-alcoholic drinks. Other EU countries report similar trends. In 2004, there were nearly 46,000 bars or restaurants serving beer in Belgium; the country's 18,000 cafes alone sold over a billion euros worth of beverages.

¶15. (U) TAXES AND TOTAL EARNINGS: As in previous centuries,

taxes remain an inevitable part of the industry. Belgian excise taxes collected on beer in 2005 totaled 193 million euros. Combined with the Valued-Added Tax (VAT) and reimbursed costs related to packing, the Belgian state earned more than 940 million euros in 2005 from the national beer industry. As a whole, breweries make up nearly six percent of Belgium's "industrial food" sector, which earned more than 1.83 billion euros in 2005.

#### INBEV: THE BELGIAN GIANT

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¶16. (U) Belgium-based InBev is the world's largest beer brewer by volume, and of one the most profitable. Worldwide, it employs 85,000. InBev can trace its roots back to 1366, to the Den Horen brewery that operated in Leuven, Belgium, which is still where the company is headquartered. The company's modern history dates from a 1987 merger between the first and second largest Belgian brewers, Brasseries Piedboeuf and Brasseries Artois, to create Interbrew. In 2004, Interbrew joined AmBev, a Brazilian-American company, to form InBev. InBev continues its aggressive growth strategy, buying major brewers in India, Brazil, and China during the past year.

¶17. (U) In 2005 InBev brewed more than 5.3 billion gallons of beer worldwide, nearly 14 percent of the world beer market. It holds the number one or number two position in more than 20 key markets and boasts more than 200 brands of lagers, premium beers and specialty brews. Well-known labels include: Labatt, Beck's, Stella Artois, Bass Ale, Hoegaarden, Leffe, and Rolling Rock. InBev's annual profits dwarf other Belgian brewers: through the third quarter of 2006, it reaped nearly 1.3 billion euros, with a global sales turnover of six billion euros. In addition to higher returns for its shareholders, the company invests some of its profits in research and development. In November 2006, InBev opened a Global Innovation and Technology Center at its Leuven headquarters. The new facility, with a price tag of 500 million euros, will support research, innovation, packaging, and new product development.

¶18. (U) InBev's size and increasingly international character draws criticism from Belgian employees, consumers, restaurant and cafe owners, and even politicians. The prime concern is job losses. Among the 13 positions in InBev's management structure, only five are held by Belgians. A Brazilian, Carlos Brito, replaced American John Brock as InBev's CEO in December 2005. In February 2006, almost 400 jobs in Belgium were lost in company restructuring, while 295 new jobs (mostly administrative) were to be created in Hungary and the Czech Republic. This news came the same day the company announced its 2005 net profit of 904 million euros, poor timing that led to strikes in protest.

¶19. (U) InBev's size draws government attention too. In April of 2006, Belgian Federal Economy Minister Marc Verwilghen requested that Belgian competition authorities investigate InBev for possible abuse of dominant market position. InBev accounts for about 57 percent of the Belgian market. The company's reputation with InBev purveyors suffered when InBev raised domestic prices an average of three percent twice within seven months, and then ordered the use of larger glassware, increasing the size from 25 to 27

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centiliters, for cafes serving InBev brands. Stuck between the company mandate and a cost-conscious public, bar and restaurant owners were forced to absorb the loss resulting from serving an extra two centiliters of beer for the same price.

#### THE POLITICS OF BREWING: BIG VS. SMALL

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¶20. (U) Harkening back to the medieval guild, the Confederation of Belgian Brewers (CBB) is an advocate for the industry. Its stated objectives are to maintain quality, to

protect brewers from unreasonable regulation, and to promote the beer sector in Belgium and beyond. Located on the Grand Place in Brussels since 1696, the CBB represents 77 of the 115 Belgian brewers. Some smaller brewers have chosen not to join, finding the CBB to be dominated by what they see as profit-thirsty industry giants. Indeed, the six largest members of the CBB account for about 82 percent of Belgian beer production by volume, and because membership dues are scaled to company profits, the larger members wield considerable influence and have dominated policy on issues such as labeling and content standards. Officials at InBev, the CBB's largest member accounting for nearly two-thirds of the Confederation's operating budget, have expressed frustration that the CBB has not done more to put Belgium on the world beer map, and have even threatened to leave the organization.

#### BELGIAN BEER IN A GLOBALIZED WORLD

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¶21. (U) Two types of brewers characterize Belgium's diverse beer marketplace. The large-scale sector is dominated by one global powerhouse. A key challenge for InBev will be playing its role as a profitable global multinational without losing sight of its humble beginnings and purveyor of a national drink. For example, InBev has tried to highlight its link to the 18th century Artois brewery, and has invested significantly in managing its image. Meanwhile, scores of small artisanal brewers jockey for the specialty brews niche, fostering a growing international appreciation for the sheer variety and artistry of Belgian beer. Their main challenge is remaining afloat in the face of global competition.

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